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## Overview

Monetary developments in the second quarter of 2007 revealed that policy was quite restrictive relative to a year earlier. Money supply grew by 12.9 percent in the year to the end of the second quarter compared to 18.1 percent a year earlier.

Outstanding loans and advances to the private sector increased by D1.4 million to stand at D2.2 billion at the end of the quarter under review. The modest growth in credit during the quarter was on account of the increase in lending to distributive and other unclassified advances. However, year-on-year, lending to the major economic sectors declined by 5.7 percent. Whilst lending to distributive trade and other unclassified loans increased, there was a contraction in credit to agriculture, fishing, building and construction, personal loans and tourism.

During the second quarter of 2007, outstanding domestic debt (discounted value) increased slightly to D4.8 billion, or by 1.0 percent from the preceding quarter. However, on annual basis, the debt increased markedly by 15.4 percent from end-June 2006.

Total liquid assets of commercial banks stood at D2.8 billion at end-June 2007 compared to D2.7 billion in the previous quarter representing a slight increase of 6.1 percent. The increase in the overall liquid assets of banks during the quarter under review was due in the main to the growth in the reserves and treasury bills holdings of deposit money banks.

Due to rising inflationary pressures caused by a depreciating Dalasi, open market operations were intensified during the second quarter of 2007. The Central Bank tightened policy further by increasing the policy rate (Treasury Bills Rediscount rate) from 14 percent to 15 percent during the second quarter of 2007. The Bank rate and the rediscount rates which are pegged to the policy rate also increased by 1.0 percent and 2.0 percentage points respectively.

The domestic inter-bank market was characterised by increased trading activity in the review quarter. Volume of transactions increased in the second quarter of 2007 to D11.1 billion or 7.2 percent from the preceding quarter. The USD remained the dominant currency in the inter-bank market accounting for 63.4 percent of the total volume of transactions in the second quarter of 2007. The domestic currency lost grounds against all the major international currencies traded in the inter-bank market except the US Dollar, reflecting increased demand for foreign currency in the second quarter of 2007 relative to the same period last year.

End-period inflation, measured by the National Consumer Price Index (NCPI) increased to 6.4 percent in June 2007 from 2.3 percent attributed largely to the increase in food consumer price inflation. Average inflation rate (12 month moving average) was 2.9 percent compared to 3.5 percent at end-June 2006. Food consumer price inflation increased to 9.9 percent at end-June 2007 whilst non-food inflation remained stable, estimated at 2.5 percent at end-June 2007 compared to 1.9 percent in the preceding quarter.

Government fiscal operations in the second quarter of 2007 showed that the overall fiscal balance (on cash basis) recorded a surplus of D415.3 million in the first half of 2007 compared to a projected deficit of

D96.7 million. In the first six months of 2007, Government's drawings on new foreign loans amounted to D61.3 million whilst principal repayments of external loans (amortization) amounted to D179.7 million.

# PART I

## DEVELOPMENTS IN THE DOMESTIC ECONOMY

### (1.0) MONETARY DEVELOPMENTS

#### (1.1) Monetary Policy

Monetary policy in 2007 aims to contain inflation at low single digit levels; sustain exchange rate stability and a viable external position. The key macroeconomic objectives are to contain inflation below 5.0 percent, achieve real GDP growth rate of 7.0 percent and build-up gross official reserves to at least 4 months of import cover.

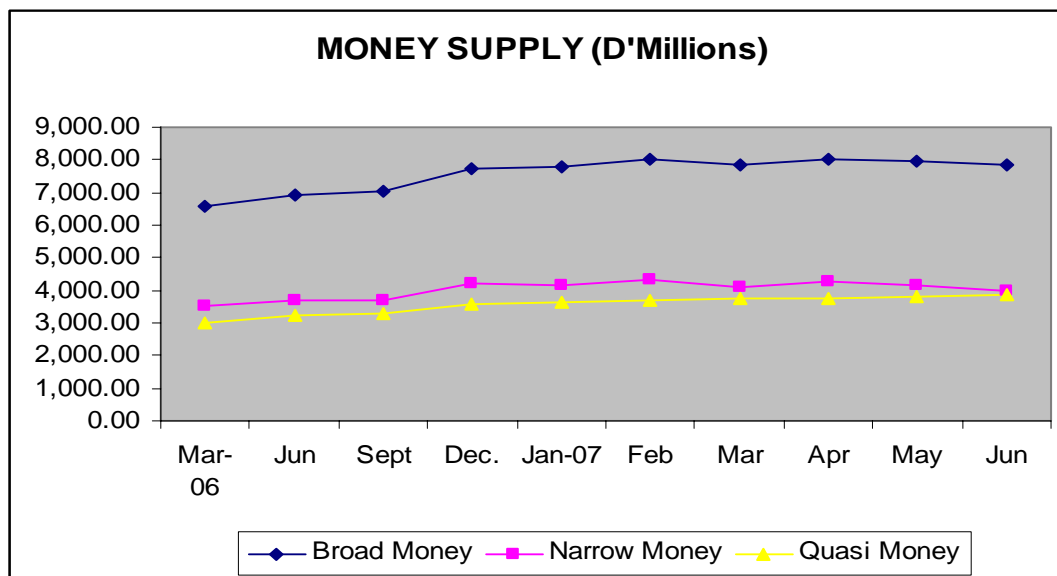
To achieve the inflation target, reserve money and money supply were projected to grow by 10.6 percent and 13.3 percent by end-December 2007 assuming stable velocity and the money multiplier (mm) of 1.94 and 2.9 respectively.

#### (1.2) Money Supply Growth

Money supply grew by 12.9 percent in the year to end-June 2007 compared to 18.1 percent a year earlier. However, quarter-on-quarter money supply increased slightly by 0.1 percent in the second quarter of 2007. Both components of money supply increased with quasi money growing at a faster pace.

Narrow money (M1), comprising currency outside banks and demand deposits increased to D4.0 billion, or by 7.7 per cent from June 2006. Currency outside banks and demand deposits rose by 7.2 percent and 8.0 percent respectively. The ratio of narrow money (M1) to broad money (M2), declined slightly from 53.2 per cent at end-June 2006 to 50.7 percent in June 2007. Compared to end-March 2007, currency

outside banks fell by 10.3 percent while demand deposits rose by 3.4 percent.



Quasi-money (time and savings deposits) rose to D3.9 billion or by 18.8 percent from June 2006. Savings and time deposits increased by 20.2 percent and 15.7 percent respectively. Correspondingly, the share of quasi-money to broad money rose from 46.8 percent at end-June 2006 to 49.3 percent in June 2007. Quasi money rose by 8.1 percent from end-March 2007 with savings and time deposits increasing by 8.9 percent and 6.1 percent respectively.

### (1.3) Factors Affecting Money Supply

#### (a) Net Foreign Assets (NFA)

The net foreign assets (NFA) of the banking system rose to D4.5 billion or by 23.0 per cent from a year earlier. This was on account of the increase in the NFA of the Central Bank and deposit money banks by 14.3 percent to D2.6 billion and 38.0 percent to D1.8 billion respectively. Central Bank's gross official reserves rose to D3.2 billion or by 11.2 percent while foreign liabilities decreased to D0.5 million or 2.1 percent.

Similarly deposit money banks' foreign assets increased significantly by 44.1 percent to D2.0 billion while their foreign liabilities grew to D128.8 million, or by a staggering 287.6 percent.

On quarterly basis, the NFA of the banking system declined slightly from D4.6 billion at end-March 2007 to D4.5 billion at end-June 2007. The moderate drop in the banking systems NFA was due entirely to the decrease in the NFA of deposit money banks. The net external position of DMBs fell to D1.9 billion of by 6.4 percent from end-March 2007, reflecting the impact to the decline in foreign assets and the increase in external liabilities. In contrast, the NFA of the Central Bank rose from D2.5 billion at end-March 2007 to D2.6 billion at end-June 2007, due to the combined effects of the increase in foreign assets and the drop in external liabilities.

**(b) Net Domestic Assets (NDA)**

The NDA of the banking system increased to D3.4 billion, or by 1.9 percent reflecting a modest domestic credit growth during the review period. Domestic credit fell to D4.0 billion, or by 0.7 percent of which credit to the private sector rose slightly by 8.7 percent to D2.5 billion while public sector credit declined by 19.4 percent to D211.6 million.

From the first quarter of 2007, the banking system's NDA rose modestly to D3.3 billion or by 1.7 percent, reflecting mainly the drop in domestic credit. Claims on government net decreased from D1.5 billion at end-March 2007 to D1.3 billion in June 2007, due to the growth in government deposits coupled with the decline in deposits in deposit money banks holding of treasury bills. The banking system's claims on public entities rose by 2.4 percent to D211.6 million in the review

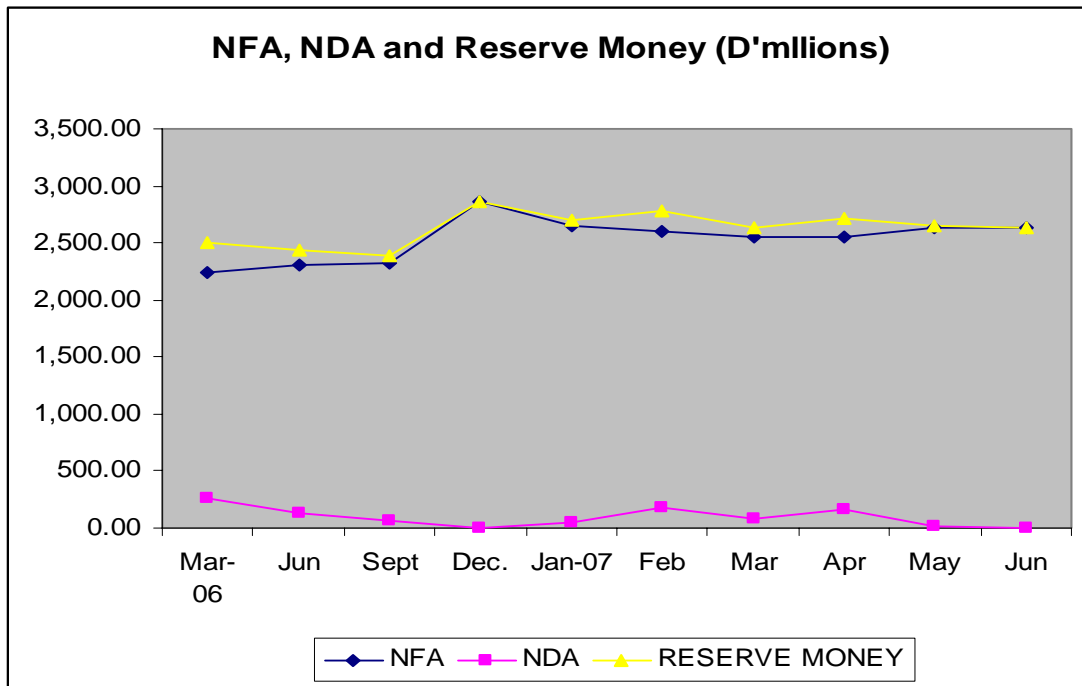


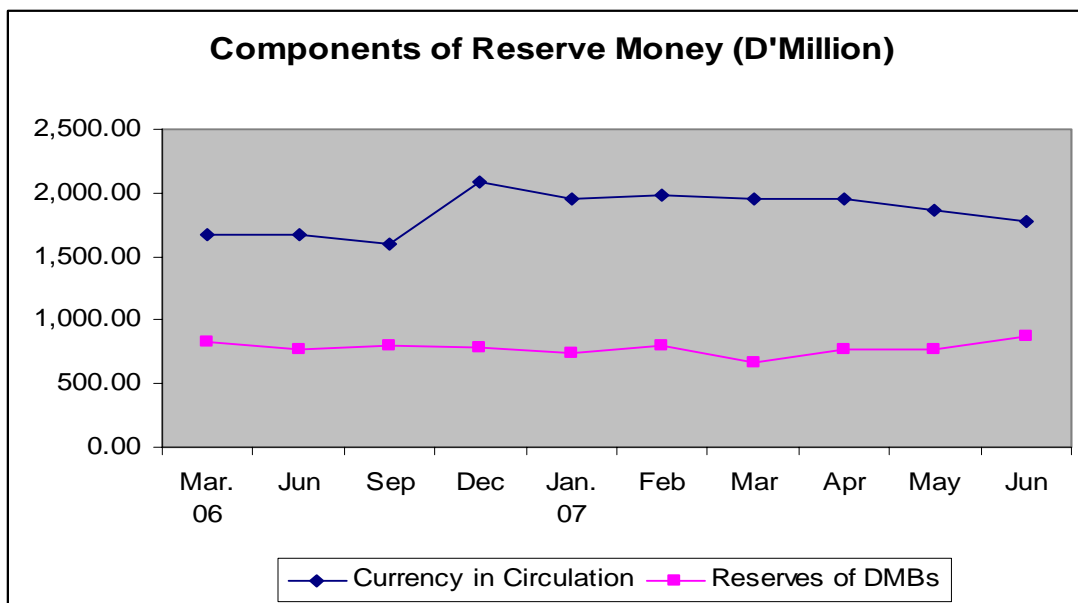
quarter. Private sector credit also rose to D2.3 billion or by 7.3 percent from end-March 2007.

**(c) Reserve Money Growth**

During the period under review, policies were directed at preventing excessive liquidity that might result to a build up in inflationary pressures while at the same time providing enough liquidity to ensure sustained economic activity.

Reserve money grew by 8.3 percent, slightly below the growth rate of 10.9 percent a year earlier and below the 10.6 percent projected for 2007 under the PRGF Program. Reserve money increased by 0.3 percent from end-March 2007.





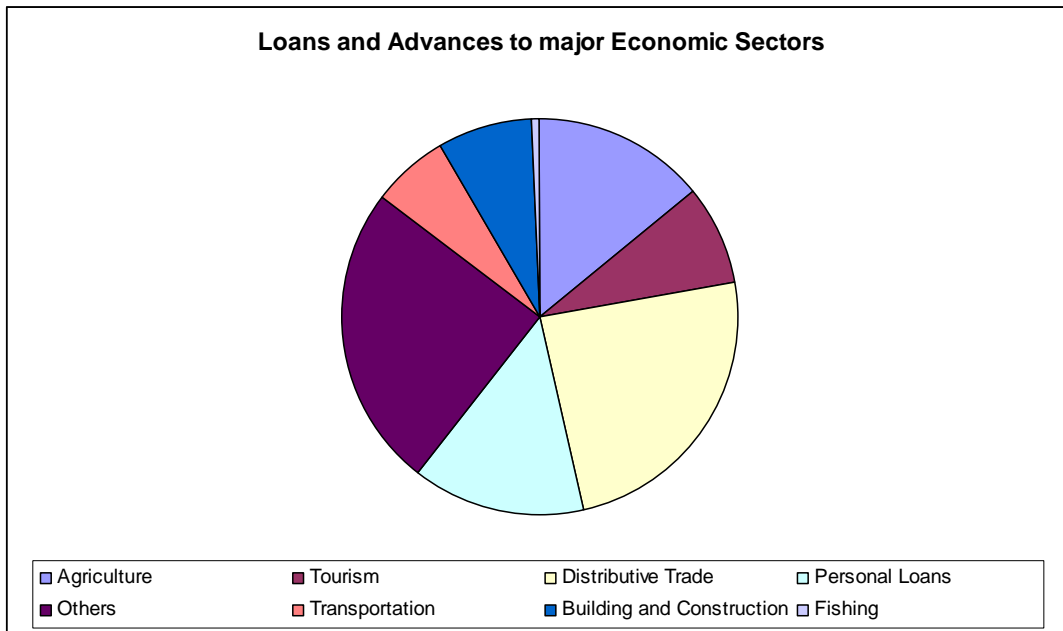
## (2.0) Loans and Advances to Major Economic Activities

Total loans and advances outstanding to major sector of the economy increased by D1.4 million to stand at D2.2 billion at the end of the quarter under review. The modest growth in credit during the quarter was on account of the increase in lending to distributive and other unclassified advances. However, year-on-year lending to these sectors declined by 5.7 percent.

Distributive trade continues to be the dominant sector accounting for 24.2 percent of the overall loans outstanding. Commercial banks loans and advances to distributive trade rose from D486.8 million at end-March 2007 to D537.0 million at end-June 2007. On annual basis, lending to this sector rose by 11.3 percent.

Unclassified loans and advances which accounts for 24.7 percent of overall credit in the second quarter increased to D548.3 million or by 48.2 percent from the first quarter of 2007. In contrast, lending to agriculture, fishing, building and construction, personal loans and

tourism declined by 20.6 percent, 2.4 percent, 3.1 percent, 8.1 percent and 30.5 percent respectively during the quarter under review.



### (3.0) PUBLIC DEBT

#### (3.1) Domestic Debt

Total domestic debt (discounted value) increased slightly to D4.77 billion, or by 1.0 percent from the preceding quarter. However, on annual basis, the debt increased markedly by 15.4 percent from end-June 2006.

Short-term debt comprising mainly of Treasury Bills which accounts for 90.2 percent of overall domestic debt increased by D46.6 million, or 1.1 percent from the first quarter of 2007 and by D562.1 million, or 15.0 percent, from end-June 2006.

Other components of the domestic debt, Government bonds, other fixed loans and Government non-interest bearing notes (NIB notes) remained unchanged at D250.0 million, D74.7 million and 143.9 million respectively from the previous quarter.

#### **(4.0) Liquidity Position Of Commercial Banks**

Total liquid of Commercial Banks amounted to D2.8 billion at end-June 2007 compared to D2.7 billion recorded in the previous quarter representing a slight increase of 6.1 percent. The increase in the overall liquid assets of banks during the quarter under review was due in the main to the growth in the reserves and treasury bills holdings of deposit money banks.

Reserves which constituted 75.0 percent of banks liquid assets grew to D2.1 billion or by 6.4 percent from the preceding quarter. Commercial banks deposits at the central bank increased by 29.7 percent to D855.1 million to end-June 2007. In contrast, local and foreign cash holdings decreased by 4.6 percent and 1.3 percent respectively. During the same period, foreign bank balances fell by 5.7 percent. Treasury bills which accounted for 24.9 percent of banks liquid assets rose to D704.7 million or by 5.0 percent from the first quarter of 2007.

In the second quarter of 2007, deposit money banks were in excess of required liquid assets by 61.0 percent, slightly higher than the preceding quarter's excess liquidity of 57.0 percent. Similarly, banks held cash reserves in excess of requirement by 127.0 percent relative to 119.0 percent at end-March 2007.

#### **(4.1) Interest Rates**

In trying to combat inflationary pressures caused in the main by a depreciating Dalasi, open market operations were intensified during this period. Taking a measured and appropriate approach, the Central Bank tightened policy further by increasing the policy rate (Treasury Bills discount rate) from 14 percent to 15 percent during the second quarter of 2007. The Bank rate and the rediscount rate which were pegged to the policy rate also increased by 1.0 percent and 2.0 percentage points respectively.

The spread deposit and lending rates of commercial banks continue to remain wide. The minimum and maximum lending rates of banks to all major sectors of the economy were 18.0 percent and 28 percent respectively. Deposit rates ranged between 1.25 percent for short-term deposits and 15 percent for time deposits. Savings deposits earned a maximum of 7.0 percent unchanged from the previous quarter. However, earning of time deposits went up by a percentage point relative to the previous quarter.

#### **(5.0) Foreign Exchange Developments**

##### **(5.1) Introduction**

The inter-bank market for foreign currency showed continued stability of the Dalasi in the second quarter of 2007 on account of increased remittances inflows, tourism receipts and foreign direct investment as well as the implementation of sound macroeconomic policies. Consequently, the growth in volume of transactions was somewhat buoyant in the second quarter of 2007 compared to the same period last year.

## (5.2) Transaction Volumes

Aggregate purchases and sales (transaction volumes) increased in the second quarter of 2007 to D11.1 billion or 7.2 percent from the preceding quarter. Compared to the same period last year, the volume of transactions was substantially higher (D11.11 billion in June 2007 compared to D8.1 billion in June 2006) during the period review period. Total sales was D5.7 billion and accounted for 51.5 percent of the transaction volumes relative to D5.0 billion or 46.8 percent in the preceding quarter.

Aggregate purchases which are indicative of supply in the inter-bank market amounted to D5.4 billion, reflecting a decrease of 4.8 percent from the previous quarter and accounted for 48.5 percent of total transaction volumes during the review period.

**Table 1: Volume of Transactions in the Inter-bank market (in D'millions)**

	2006				2007	
	Q1	Q2	Q3	Q4	Q1	Q2
Purchases	3,812.57	4,277.55	4,445.99	5,454.33	5,662.53	5,388.55
Sales	3,800.59	3,826.36	3,738.42	4,714.90	4,968.65	5,721.50
<b>Total</b>	<b>7,613.16</b>	<b>8,103.91</b>	<b>8,184.41</b>	<b>10,169.23</b>	<b>10,631.18</b>	<b>11,110.05</b>

In US Dollar terms, transaction volumes increased to USD 419.0 million or 9.1 percent from the previous quarter. The Central Bank net purchases (purchases less sales) amounted to D168.6 million compared to D4.3 million in the first quarter of 2007.

### (5.3) Market Share of Major International currencies

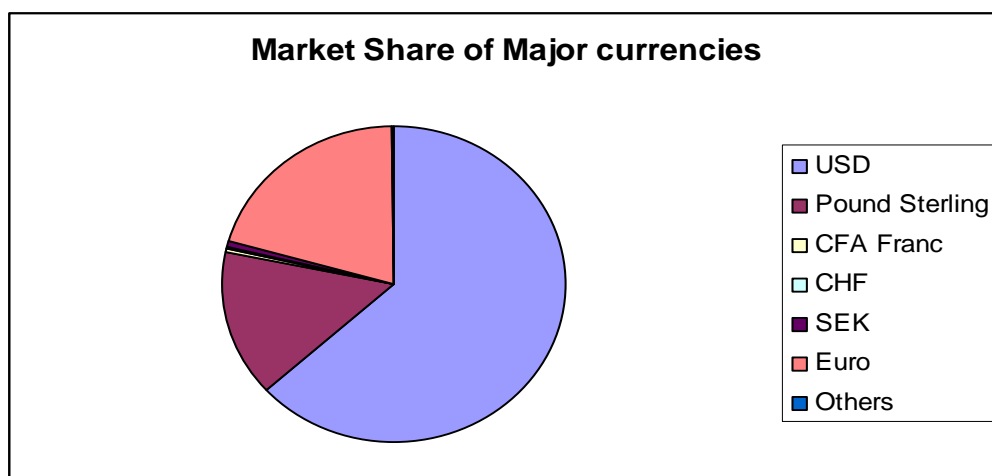
The USD remained the dominant currency in the inter-bank market for foreign exchange, accounting for 63.4 percent of the total volume of transactions in the second quarter of 2007, slightly lower than in the previous year (66.5 percent). However, compared to the preceding quarter, the market share increased somewhat, by 3.0 percentage points.

The market share of the Euro and Pound Sterling declined from 22.1 percent and 15.5 percent in March 2007 to 20.4 percent and 14.8 percent during the review period. The CFA Franc, Swiss Franc, Swedish Krone and other unclassified currencies registered market shares of 0.5 percent, 0.3 percent, 0.4 percent and 0.2 percent relative to 0.5 percent, 0.3 percent, 0.5 percent and 0.8 percent respectively in the first quarter of 2007.

**Table 2: Market share of Major Currencies Traded in the Inter-Bank Market (%)**

	2006				2007	
	Q1	Q2	Q3	Q4	Q1	Q2
USD	57.6	66.5	63.5	59.27	60.38	63.35
Pound	19.6	14.4	11.4	15.71	15.48	14.81
CFA	0.4	0.5	0.5	0.50	0.46	0.55
EURO	20.2	17.5	23.5	23.02	22.06	20.39
CHF	-	-	-	-	0.35	0.32
SEK	0.7	0.3	0.2	0.49	0.51	0.37
Others	1.5	1.4	0.8	0.99	0.76	0.20

**Chart 1: Market Shares of the key Currencies in the Inter-Bank Market**



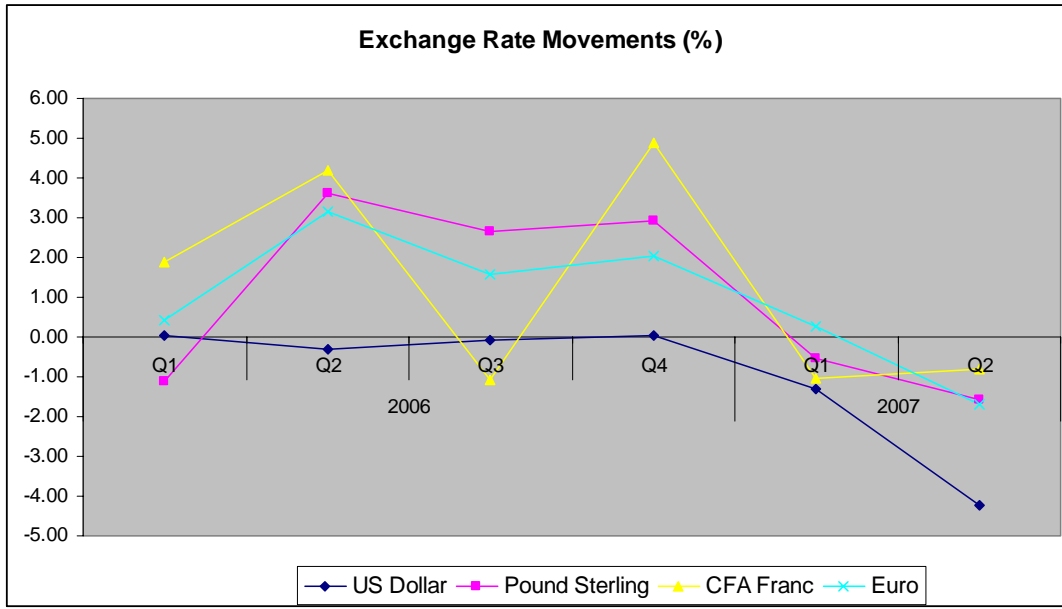
**(5.4) Exchange rate movements**

The dalasi depreciated against all the major international currencies traded in the inter-bank market except the US Dollar, reflecting increased demand for foreign currency in the second quarter of 2007 compared to the same period last year. The appreciation of the dalasi against the US Dollar was explained largely by the weakening of the US Dollar in the international currency markets.

**Table 3: Nominal Exchange Rate**

	GBP	USD	SEK	CFA	EURO
<b>2006 Q1</b>	49.22	28.14	354.20	256.62	33.86
<b>Q2</b>	51.01	28.05	355.25	267.35	34.92
<b>Q3</b>	52.36	28.04	362.17	264.48	35.47
<b>Q4</b>	53.89	28.05	383.72	277.37	36.20
<b>2007 Q1</b>	53.61	27.68	367.55	274.54	36.29
<b>Q2</b>	52.76	26.52	373.92	272.31	35.68





The Dalasi weakened vis-a-vis the Pound Sterling, Euro, Swedish Kroner and CFA franc by 3.4 percent, 2.2 percent, 5.3 percent and 1.9 percent respectively. However, it strengthened against the US Dollar by 5.8 percent.

### (6.0) Tourism

The number of air chartered tourist arrival declined marginally to 19,286 or 1.7 percent at end June 2007 compared to the same period last year. Due to seasonal factors, the second quarter corresponds with the lean tourist arrival period and that explains the 66.7 percent declined from the last quarter.

## (7.0) Inflation

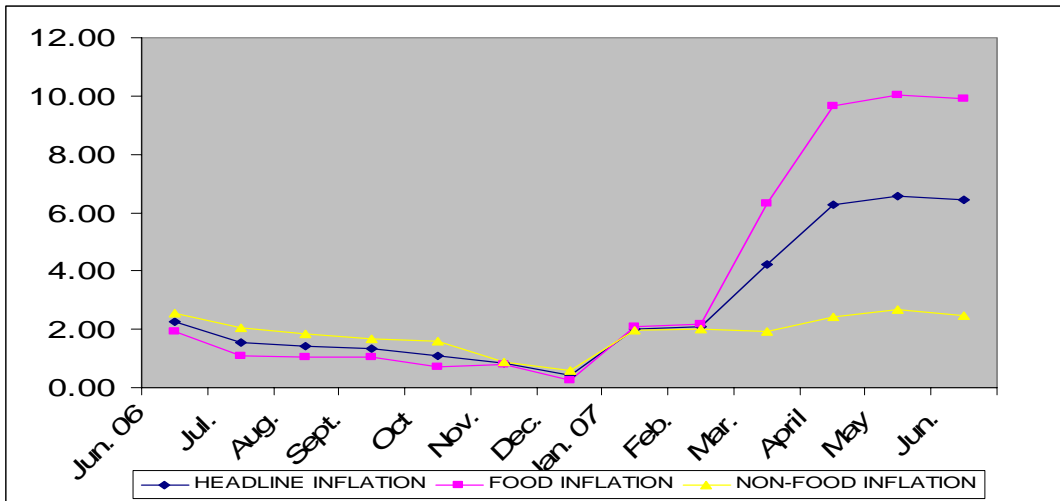
End-period inflation, measured by the National Consumer price Index (NCPI) increased to 6.4 percent in June 2007 from 2.3 percent in the same period last year due to the increase in food consumer price inflation. Average inflation rate (12 month moving average) was 2.9 percent compared to 3.5 percent at end-June 2006.

### Food Inflation

	2006				2007	
	Q1	Q2	Q3	Q4	Q1	Q2
Bread Cereals	3.5	3.9	3.6	3.4	1.1	5.8
Meat	7.2	6.9	5.5	5.0	1.6	2.6
Fish	0.1	-0.5	-0.4	-1.1	4.0	4.6
Oils and Fats	2.1	2.3	-1.5	-1.9	28.7	39.0
Milk, Cheese and Eggs	5.3	5.2	5.1	5.0	2.6	3.5
Sugar, jam, honey & sweets	5.1	5.1	3.9	3.7	0.6	1.9
Other Food products	5.2	-17.6	-15.4	-16.5	5.5	6.4

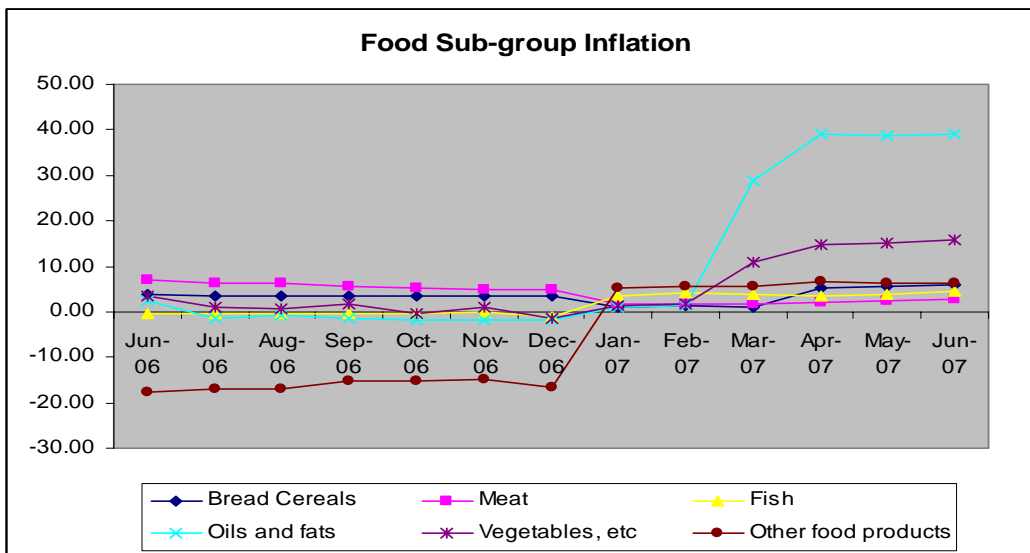
Food consumer price inflation increased to 9.9 percent at end-June 2007 or by 7.9 percentage points, reflecting the rise in consumer prices of 'bread cereals', 'fish', 'oils and fats', 'vegetables, root crops and tubers' and 'other foods' by 5.8 percent, 4.6 percent, 39.0 percent, 15.9 percent and 6.4 percent from 3.9 percent, negative 0.5 percent, 2.3 percent, 3.3 percent and negative 17.6 percent respectively a year ago.

**Chart 1: Headline Inflation, Food and Non-food Inflation**



On the other hand, consumer price inflation of 'sugar, jam, honey and sweets' declined to 1.9 percent at end June 2007 from 5.1 percent the year earlier.

**Chart 2: Components of Food Inflation**



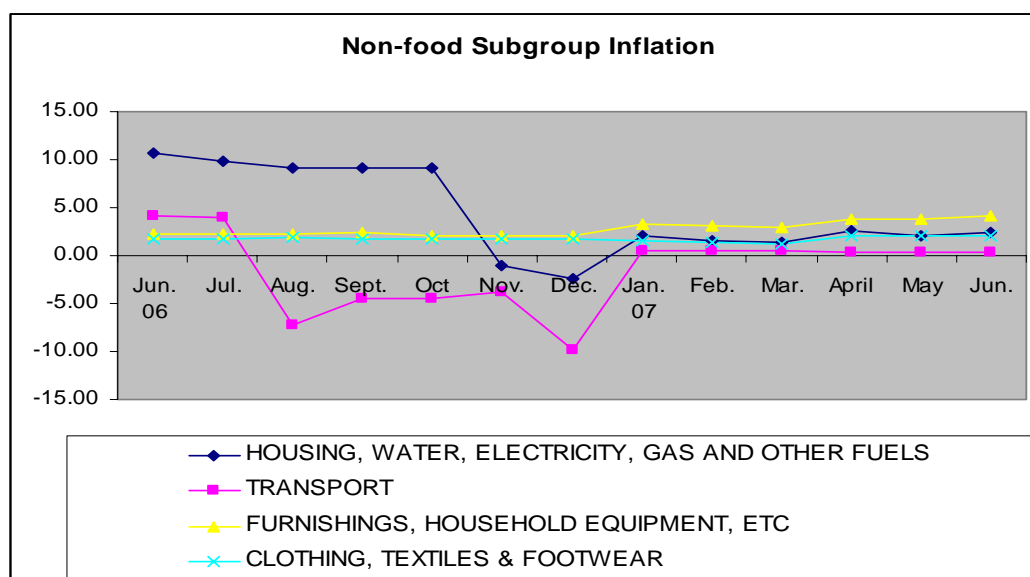
Non-food inflation remained stable, estimated at 2.5 percent at end-June 2007 compared to 1.9 percent in the preceding quarter. However, from the same period last year, non-food inflation declined

by 0.05 percentage points on account of the deceleration in the consumer prices of 'housing, water, electricity, gas and other fuels' and 'transportation' to 2.4 percent and 0.4 percent from 10.7 percent and 4.1 percent respectively in June 2006. On the other hand, consumer price inflation of 'clothing, textiles and footwear', and 'furnishings, household equipment, etc' rose by 2.1 percent and 4.2 percent respectively during the review period.

### Non-Food Inflation

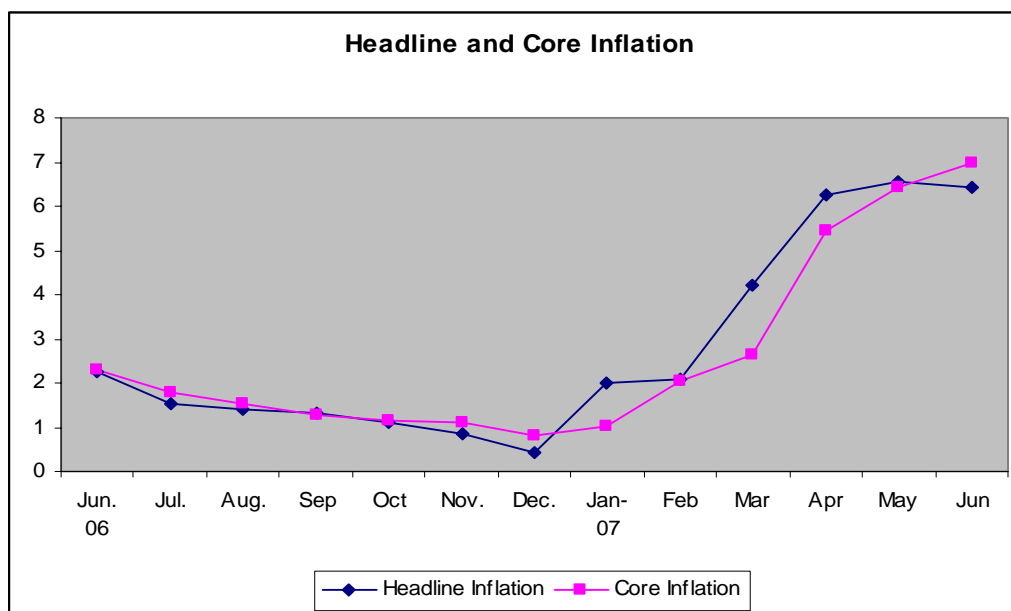
	2006				2007	
	Q1	Q2	Q3	Q4	Q1	Q2
Housing, water, electricity, gas & other fuels	10.3	10.7	9.2	-2.4	1.4	2.4
Furnishings, household equipment, etc	2.7	2.2	2.5	2.1	2.9	4.2
Transport	3.6	4.1	-4.6	-9.9	0.6	0.4
Hotels, cafes, and restaurants	3.0	-3.2	-3.5	-3.5	0.7	3.5
Misc. good and services	2.5	1.2	1.2	2.3	7.2	8.3

Chart 3: Components of Non-Food Items



## (7.1) Core Measure of Inflation

Core inflation which excludes volatile food items, energy and utilities increased to 7.0 percent at end June 2007 from 2.6 percent in the preceding quarter. Compared to the same period last year, core inflation rose by 4.7 percentage points from 2.3 percent in June 2006.



## (8.0) Fiscal Developments

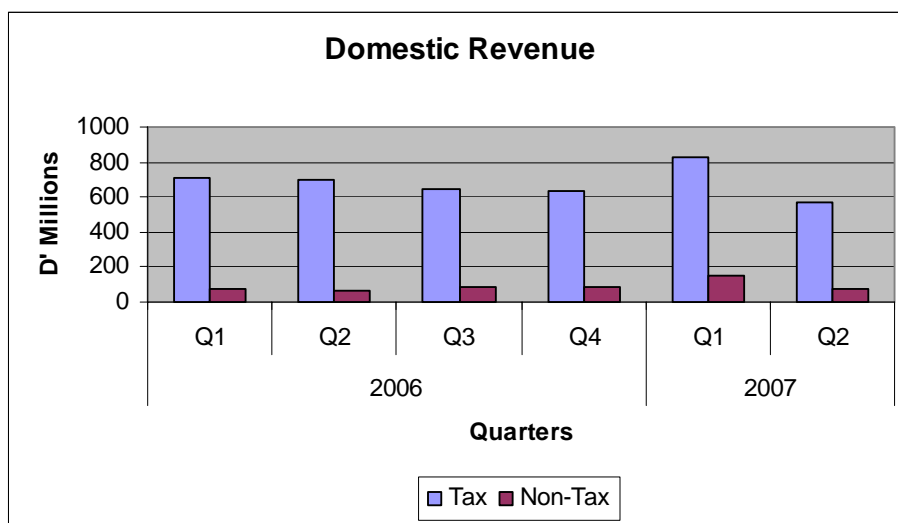
### (8.1) Domestic Revenue and Grants

The performance of public finances in the first half of 2007 is better than projected and resulted mainly from the considerable contraction in government expenditure and the substantial increase in domestic revenue. Domestic revenue which is 10.3 per cent of GDP in the first half of the year, expanded by 21.7 per cent compared to the corresponding period of 2006. Moreover, domestic revenue outperformed its projection of D1.68 billion for the first six months of 2007

by D203.9 million. This was due largely to the increased performance of both Tax and Non-Tax revenue.

This neat revenue performance was driven by robust corporate tax receipts, which hinges on the improvement in tax administration, delayed receipts of license payments from Service Providers in the Telecommunications Industry and increased tax collection from international trade transactions. Although both Sales Tax on Imports and Import duties contributed considerably to the strong outcome of Taxes on external trade, Import duties registered a decrease of 6.2 per cent compared to the first half of 2006. Import duties however, stood above its first bi-annual projection for 2007 by D1.3 million, on account of reduced issuance of import duty waivers.

**Figure (i)**



**Source: DoSFEA**

Non-Tax revenue also recorded a higher-than-projected performance vis-à-vis its half-yearly projection of D206.0 million. At D254.1 million, non-tax revenue overshoot its target by D48.1 million and stood above the first half of 2006 revenue outturn by 79.3 per cent. Growth in

government services and charges as well as telecommunication's licensing and spectrum fees, substantially accounted for the robust performance of non-tax revenue during the review period.

In contrast, grants were less-than-envisaged and amounted to D244.1 million (only 1.6 per cent of GDP). This figure solely represented project-related grants and has implications on externally-funded capital expenditure. Furthermore, it had a dampening impact on total revenue and grants, which fell short of its target (D2, 154.2 million) by D28.1 million.

## **(8.2) Total Expenditure and Net Lending**

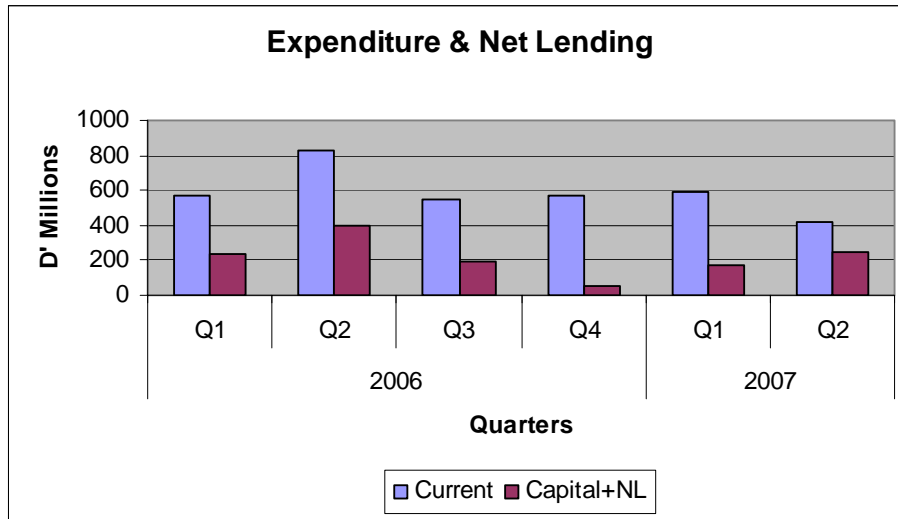
The improved performance on the revenue front was supported by curtailed public expenditure. Total expenditure and net lending stood at D1.69 billion in the first half of 2007. This was D16.8 million lower than the figure recorded in the corresponding period of 2006. It was also within its projected ceiling of D2.25 billion set for the first half of 2007.

The prudent government expenditure policy was supported by the introduction of the Integrated Financial Management Information System (IFMIS) which ensured that spending on wages and salaries as well as other charges remained within budget appropriations. Although, wages and salaries were on track, other charges went off course, bursting its projected maximum of D391.1 million by D134.6 million during the review period. Resultantly, this led to a current expenditure over-run of D30.3 million vis-à-vis the projected ceiling of D1,240.9 million.

Total interest payments, which constituted 23.5 per cent of domestic revenue, also went up by D22.0 million compared to its targeted ceiling of D423.2 million, mainly on account of domestic interest payments.

The glut in recurrent spending is partly attributable to increased interest payments, which accounted for 35.0 per cent of current expenditure.

Figure (ii)



Source: DoSFEA

In contrast, capital expenditure, projected at D941.5 million in the first half of 2007, was below target by D466.2 million, due in the main, to delays in the implementation of external donor-funded road projects. The dip in the Gambia Local Fund component of capital expenditure is a further indication of the low rate of implementation and absorption with regards to government-funded projects.

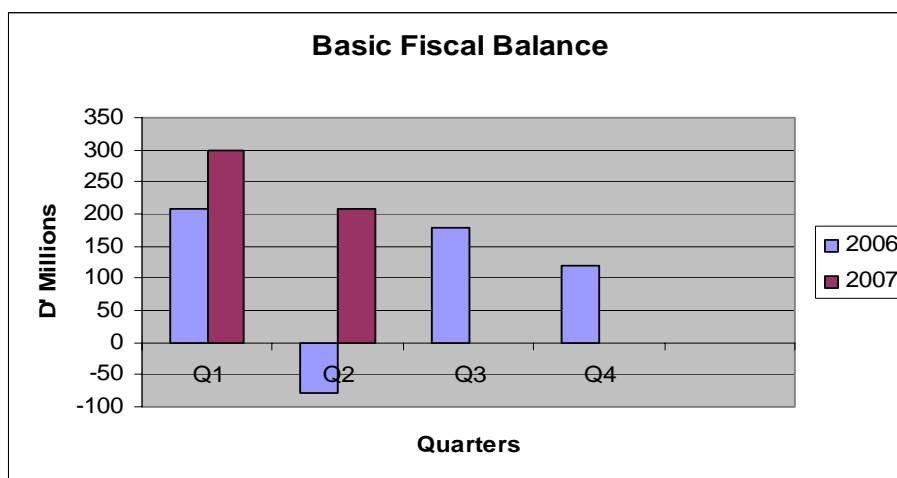
However, net-lending, which comprises on-lending to quasi-government institutions less repayments, recorded D78.0 million in the first half of this year. This consisted of D20 million capitalizations of the CBG and D58.0 million for CENSAD Bank.



### (8.3) Basic Fiscal Balance

The basic balance levelled at 3.2 percent of GDP in the first half of this year, double the level set under the PRGF program. Meeting the basic balance, which comprises domestic revenue less total expenditure and net lending, excluding externally-financed capital expenditure, is one of the preconditions for a successful completion of the IMF PRGF program.

Figure (iii)



Source: DoSFEA

However, the basic primary balance, which comprises domestic revenue less total expenditure and net lending, excluding externally-funded capital spending and interest payments, was 6.0 per cent of GDP in the first six months of 2007.

#### **(8.4) Overall Budget Balance Financing**

The overall fiscal balance (on cash basis) recorded a surplus of D415.3 million in the first half of 2007 compared to a projected deficit of D96.7 million. In the first six months of 2007, Government's drawings on new foreign loans amounted to D61.3 million whilst principal repayments of external loans (amortization) amounted to D179.7 million.

On the domestic financing side, government received D18.1 million for the sale of state land in the Greater Banjul Area (GBA) but incurred D82.0 million in terms of domestic debt repayment and D237.9 million as payment of arrears to public enterprises for funds provided for the hosting of the 2006 AU Summit.